

Why is health care so expensive?

Why it's so high, how it affects your wallet—and yes, what you can do about it

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Photo: Benjamin Bouchet

Person for person, health care in the U.S. costs about twice as much as it does in the rest of the developed world. In fact, if our \$3 trillion health care sector were its own country, it would be the world's fifth-largest economy.

If you have health insurance, you may think it doesn't matter because someone else is paying the bill. You'd be wrong. This country's exorbitant medical costs mean that we all pay too much for health insurance. Overpriced care also translates into fewer raises for American workers. And to top it off, we're not even getting the best care for our money.

First, be aware that even if you have insurance, it doesn't always fully protect you. Four years ago, Joclyn Krevat, a 32-year-old occupational therapist from New York City, collapsed with a rare heart condition and ended up needing an emergency heart transplant. She had it done at a hospital in her health plan's network, but no one bothered to tell her that her transplant surgeons didn't take her insurance. They billed her \$70,000 and sent collection agencies and lawyers after her while she was still home recuperating. In studying the problem, Consumer Reports has heard dozens of similar tales about surprise out-of-network bills. (If you have one, consider [sharing it with us](#)).

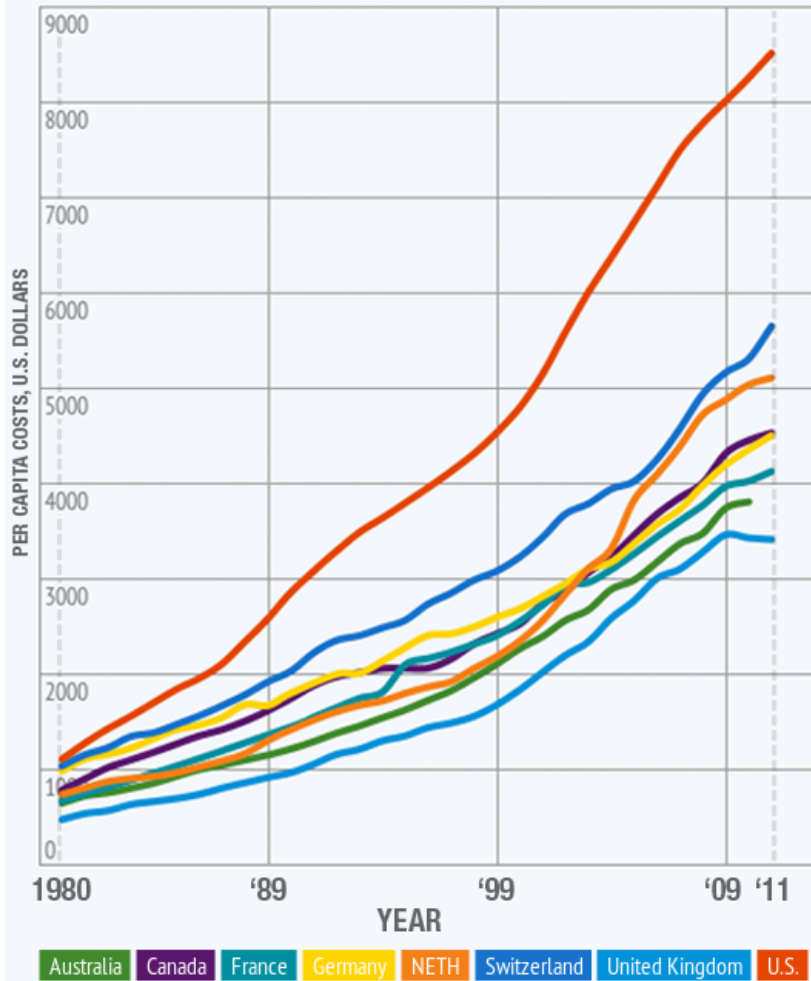
Second, higher health care costs mean higher health insurance premiums for everyone. It's Health Insurance 101: Insurance is about pooling risk. That's a good thing because it protects you against unexpected costs—but companies have to collect enough in premiums to pay for members' health expenses. The higher the expenses for the risk pool, the higher the premiums for everyone—even if you received little or none of that care.

And if you're wondering why you can't get ahead financially, blame it on the fact that health care is eating your raises. Since 2000, incomes have barely kept up with inflation and insurance premiums have more than doubled. The average employer family health plan that cost companies \$6,438 per staffer in 2000 shot up to \$16,351 by 2013. That's money that could have gone into your paycheck but didn't because your employer had to spend it on your health insurance instead.

The kicker: We don't get much for our money. In a [2013 Commonwealth Fund study of 11 developed countries' health care systems](#), the U.S. ranked fifth in quality and worst for infant mortality. We also did the worst job of preventing deaths from treatable conditions, such as strokes, diabetes, high blood pressure, and certain treatable cancers. (See graph, below).

HEALTH CARE COSTS: WE'RE NUMBER ONE!

Not only does the U.S. have the highest per-capita health costs in the world, but they've been going up faster than in other rich countries for the past three decades - yet we haven't gotten more or better care for our money.

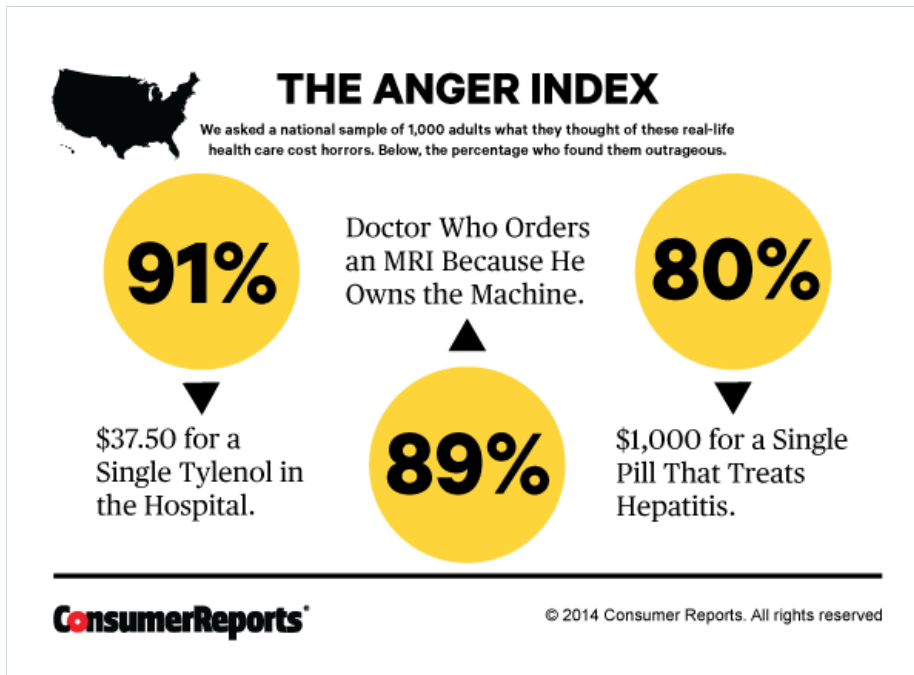


Source: The Commonwealth Fund

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No wonder that when Consumer Reports surveyed a representative sample of 1,079 American adults, we found considerable distress about high costs. Twelve percent said they had spent more than \$5,000 of their own money on medical bills (not counting prescriptions or insurance premiums) in the previous year, and 11 percent said they had medical bills they had trouble paying. Large majorities said they wanted better information about cost and quality of their health care (see the box, below).



Made-up prices and a yen for brand-name hospitals

All of which brings us to the big question: Why exactly is our health care so expensive?

Health care works nothing like other market transactions. As a consumer, you are a bystander to the real action, which takes place between providers—hospitals, doctors, labs, drug companies, and device manufacturers—and the private and governmental entities that pay them. Those same providers are also pushing Americans into newer and more expensive treatments, even when there's no evidence they're any better.

"There is no such thing as a legitimate price for anything in health care," says George Halvorson, former chairman of Kaiser Permanente, the giant health maintenance organization based in California. "Prices are made up depending on who the payer is."

When Medicare is paying the bills, prices tend to be lower. That agency is by far the largest single source of revenue for most health care providers, which gives it more leverage to set prices. Private insurance companies and providers, on the other hand, bargain head-to-head over prices, often savagely. (If you see headlines in your area about such-and-such hospital leaving an insurer network, that's what's going on.)

In regions with many competing providers, insurers can play them against each other to hold down prices. But where there are few providers, not so much. Providers know that, and are busily consolidating into larger groups to get more bargaining power. In your own community, you may have noticed new outpatient medical clinics sprouting up emblazoned with the name of a local hospital; that is hospitals buying up private medical practices to get more clout with insurers.

But the providers with the most clout are the brand-name medical centers, which hold special cachet for patients and are thus "must have" hospitals for many insurers. "In some markets the prestigious medical institutions can name their price," says Andrea Caballero, program director for Catalyst for Payment Reform, a national nonprofit trying to get a grip on health costs on behalf of large employers. "They may have brand names of high prestige but not necessarily deliver higher-quality care."

There are small but hopeful signs that health costs aren't growing quite as fast as they used to. Medicare's costs are stabilizing, for instance. It's too soon to tell whether that is a permanent trend.

But the "medical industrial complex" continues going for as much gold as it can, as the following examples show all too clearly.

Outrage No. 1: Why do just one test when you can bill for three?

Americans usually pay for health care by the piece: so much for each office visit, X-ray, outpatient procedure, etc. That approach leads to one thing: waste. Up to 30 percent of the care provided in this country is unnecessary, according to the Congressional Budget Office. "If you have a treatment that requires three CT scans and re-engineer it to require only one, it won't happen because two CT scan places will lose a source of revenue," says George Halvorson of Kaiser Permanente. "Piecemeal also rewards bad outcomes. It pays a lot if you have a heart attack but very little for preventing it."

Some insurance companies are making headway against overtreatment—which is why Consumer Reports has prepared a list of them in collaboration with the National Committee for Quality Assurance (NCQA), a nonprofit quality measurement and accreditation organization. (Read more about health plans that help members [avoid unnecessary medical care](#).)

Outrage No. 2: The \$1,000-per-pill hepatitis drug

Here's a prime example of big pharma's we-charge-what-we-want syndrome: A new pill for hepatitis C has hit the market that, if taken by everyone who should take it, would cost Americans more per year than all other brand-name drugs combined. No one—not individuals, not private insurers, not Medicare—can do a thing about it. That's because here in the U.S., as long as the drug, Sovaldi, remains under patent, its owner, Gilead Sciences, can charge whatever it wants. At the moment



Click on the image to read about plans that help members avoid unnecessary medical care.

that's \$1,000 per pill, or \$84,000 to \$150,000 for a course of treatment.

"Drug companies charge what the market will bear, and in the United States the market will bear a lot," says Matt Salo, executive director of the National Association of Medicaid Directors, a policy group based in Washington, D.C.

Hepatitis C affects 3.2 million mostly boomer-aged Americans who got it through tainted blood transfusions (no longer a serious risk thanks to new screening tests) and intravenous drug use. Left untreated, it can lead to liver failure and is the leading reason for liver transplants in the U.S. Older treatments were uncomfortable, took forever, came with unpleasant side effects, and didn't always work. With Sovaldi, you take the pill for a few months; it has a cure rate of about 90 percent in clinical trials.

The industry defends the price on the grounds that it's cheaper than a \$500,000 liver transplant. But most people with untreated Hepatitis C never need a transplant; even after 20 years, the savings from not having to treat the disease's worst effects would offset only about 75 percent of Sovaldi's up-front costs, research suggests. Meanwhile, it would add \$600 per person to the annual cost of a group health plan.



Sovaldi costs \$1,000 per pill

Outrage No. 3: Pushing the new and flashy

One way for hospitals and medical practices to make gobs of money is to push a new, trendy procedure—even if it's no better than an older one. Prime example: prostate cancer surgery. Medical science still has little idea which treatments work best for the disease, or even who really needs to be treated, because many patients have cancer so indolent that they will die of something else long before it kills them.

None of that has stopped medical marketers from persuading hospitals to spend ever larger sums of money on so-called cutting-edge prostate cancer treatments to lure patients away from competitors.

The poster child for the phenomenon is robotic surgery, which your local hospital has probably bragged about.

First introduced for prostate cancer surgery in 2001, the \$2 million machine—a collection of laparoscopic instruments operated remotely—went from being used for 6 percent of prostatectomies in 2004 to 83 percent in 2014, despite little evidence that it is better than other types of surgery even though it comes with a higher price tag.

"There's marketing value in a very expensive piece of technology, such as a robot, even if it doesn't work better," says Jeffrey C. Lerner, president of the ECRI Institute, a nonprofit health technology evaluation organization. "Nobody's ever going to put up a billboard about having the best bandage."



3 ways you can help rein in expenses

1. Find out the real cost of your treatment

More and more insurers are disclosing at least some negotiated prices to members who register with their websites. Take advantage of that feature if your health plan offers it, especially for things you can plan in advance, such as imaging tests. In a recent experiment, people scheduled for CT scans or MRIs were called and told about cheaper alternatives of equal quality; they ended up saving participating insurers an average of \$220 per scan—and prompted more expensive providers to cut their prices.

2. If you want the celeb doctor, pay extra

"Reference pricing" is when an insurer analyzes its past claims to set a reasonable price for a good-quality routine test or procedure and tells its customers that if they want to go to a higher-cost in-network provider, they can—but will be responsible for the difference between the reference price and the provider's price.



CalPERS, which buys health insurance for 1.3 million California state employees and retirees, set a reference price of \$30,000 for routine hip and knee replacements after discovering it was paying as much as \$110,000 for those procedures. In the first year, savings averaged \$7,000 per patient—and several high-cost hospitals suddenly discovered that they, too, could offer \$30,000 joint replacements. One caveat: This fix needs to be done carefully to make sure that quality stays high and consumers aren't caught by surprise.

3. Seek out a smaller medical network

You can save about 20 percent on premiums by signing up with a plan that has fewer providers than customary. Providers give the insurer a price break in exchange for fewer competitors. But before signing on, make sure that the network includes the doctors, hospitals, labs, and other services you need within a reasonable distance from your home and that they accept new patients. Subscribers to our website can [see how hospitals compare in quality](#).

Get health insurance rankings

Click on the image at right for rankings of health insurance plans nationwide. Use the tool to:

- Choose a plan category such as private HMO or PPO, Medicare HMO or PPO, or Medicaid.
- Choose a state.
- Customize your search to compare plans' scores and their performance in measures such as consumer satisfaction and providing preventive services.



